Economic News

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CANADA

Core inflation growing stronger than expected

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.7% in March.
- The main factors contributing to this growth are gas (+6.3%), clothing (+4.6%), motor vehicle purchases (+2.5%), tour packages (+2.9%) and footwear (+2.4%).
- In contrast, the main components reining in monthly CPI growth are air transportation (-2.1 %), electricity (-0.7 %), fresh fruits (-1.9 %), fresh vegetables (-1.4 %) and non-prescribed medicines (-3.0 %).
- The total annual inflation rate went from 1.0% to 1.2%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components, rose 0.6% in March. Its annual change goes from 2.1% to 2.4%.

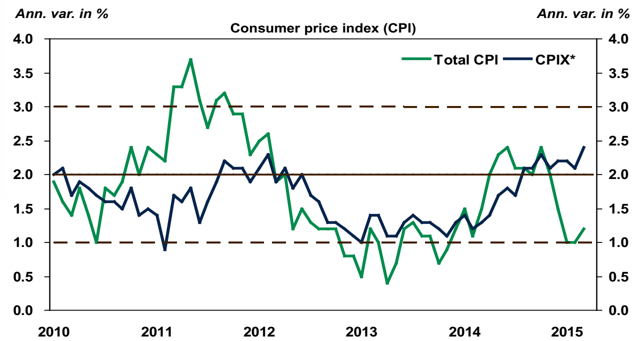
COMMENTS

Total inflation in March is essentially in line with expectations, even though the monthly change exceeded the consensus forecast by one tenth of a percent. The story on CPIX is completely different, as the increase recorded in March sharply exceeded expectations. The monthly change of seasonally adjusted CPIX (which gives a good indication of the trend in inflationary pressure) was up 0.4% during the month. This advance is much faster than the average for the last six months (0.15 %). As such, the annual change in CPIX was 2.4% in March, its highest level since December 2008.

This underscores somewhat greater upside pressures on Canadian inflation. It is therefore not by chance that the components contributing the most to CPI growth in March are automobiles, tour packages, clothing and footwear. These are all goods and services that involve a high proportion of imports, and therefore are particularly affected by the Canadian dollar's depreciation.

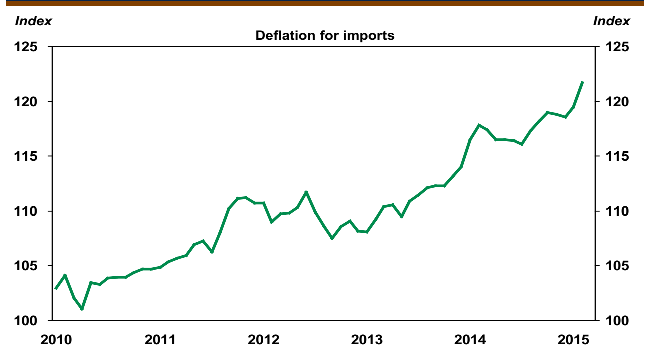
Implications: Even though total inflation is low due to a decrease in gas prices in 2014 and the beginning of 2015, the change in core inflation highlights certain upside pressures. These circumstances make it difficult for the Bank of Canada to further soften its monetary policy in the coming months. We can expect the status quo to extend to spring 2016.

Core inflation reaches a level not seen since the end of 2008



* Bank of Canada core index.
Sources: Statistics Canada and Desjardins, Economic Studies

Price of imported goods are up



Sources: Statistics Canada and Desjardins, Economic Studies

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